ANNUAL REPORT
to the
HOUSE OF ASSEMBLY
of the
STANDING COMMITTEE ON ECONOMIC DEVELOPMENT

1987

Presented by:
Dr. C. W. MacNeil, M.L.A.
Chairman

The Third Session of the Fifty-Fourth General Assembly

Annual Report
Standing Committee on Economic Development

The Committee

The Standing Committee on Economic Development was established by the House of Assembly on March 27, 1987. The members of the Committee are:

Dr. Charles W. MacNeil, M.L.A., Chairman
The Honourable Edmund L. Morris
The Honourable Greg Kerr
The Honourable George Moody
Mr. Donald G. MacLeod, M.L.A.
Mr. Greg MacIsaac, M.L.A.
Mr. Vincent J. MacLean, M.L.A.
Mr. Guy Brown, M.L.A.
Mrs. Alexa McDonough, M.L.A.

Secretary to Committee:
Mrs. Joan M. Kelly

Terms of Reference

The Terms of Reference of the Standing Committee on Economic Development are set forth in the Rules and Forms of Procedure of the House of Assembly, page 41, **COMMITTEES**, 60 (2) for greater certainty:

(b) the Economic Development Committee is established for the purpose of considering matters normally assigned to or within the purview of the Ministers and Departments of Development, Mines and Energy, and Transportation.

The Report

The Annual Report of the Standing Committee on Economic Development was prepared by Ms. Dianne M. Stillman, through the services of the House of Assembly Committees Office which is responsible for the clerical and administrative support of the Committee System.

Minister Not On Committee

(5A) With the exception of the Attorney General, who shall serve as Chairman of the Law Amendments Committee, no Minister shall be appointed to a Standing Committee established for the purpose of considering matters normally assigned to or within the purview of that Minister or that Minister's Department.

Acknowledgements

The Committee expresses its appreciation to the Witnesses for their time and co-operation. The Committee also thanks the staff of Province House, Hansard Reporting Services and the Committees Office.

The Committee also acknowledges, with gratitude, the co-operation of Mr. Speaker, Arthur R. Donahoe, Q.C. and his staff.

Annual Report
Standing Committee on Economic Development

Meetings Held

Date	Represented
April 3, 1987	(Preliminary Meeting - No Witnesses)
April 22, 1987	Nova Scotia Resources Limited
April 24, 1987	Department of Transportation
April 29, 1987	Sydney Steel Corporation AND United Steel Workers of America Local 1064
May 1, 1987	Nova Scotia Power Corporation
May 8, 1987	United Steel Workers of America Locals 1231 and 4253
May 12, 1987	(Committee Only - No Witnesses)
May 15, 1987	Nova Scotia Resource Development Board
May 19, 1987	Hawker-Siddeley Canada Limited
October 28, 1987	Nova Scotia Resources Limited
December 2, 1987	Nova Scotia Resources Limited

Annual Report
Standing Committee on Economic Development

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Preliminary Meeting
April 3, 1987

The Committee met briefly to discuss suggestions by Members regarding an agenda. It was decided that representatives of the following groups would be invited to appear:

DEVELOPMENT

- Nova Scotia Power Corporation
- Industrial Estates Limited
- Hawker-Siddeley of Canada Limited, Trenton, N. S.

MINES & ENERGY

- Nova Scotia Resource Development Board
- Tidal Power Corporation

TRANSPORTATION

- Department of Transportation
- Canadian Association of Seafarers for Shipping

OTHER

- Deputy Minister, Department of Finance

The Chairman agreed to look into appropriate measures for inviting Federal Government Ministers (particularly the Minister for Regional Economic Expansion) to these meetings.

Nova Scotia Resources Limited
Meeting No. 1: April 3, 1987

Witness: Mr. Peter Outhit
President and Chief Executive Officer

This meeting, the first of three, was held in conjunction with the Standing Committee on Public Accounts.

The Witness, in his opening remarks, made reference to a statement made in the House by the Minister of Mines and Energy (Hansard, p. 1038) in that Nova Scotia Resources Limited should make a public presentation of its activities, assets, financial position and corporate strategy.

He proposed, on behalf of Nova Scotia Resources Limited that they would make "a detailed presentation in June after the House rises" and at that time "will outline in detail the reasons for positively assessing the value of our lands and interests and the projected cash flows from oil and gas production, as well as the timing and method of paying out the corporate debt and the company's options for reinvesting that debt."

Mr. Outhit then agreed to meet with both Committees immediately following the public presentation. However, in a letter to the Secretary to the Public Accounts Committee, dated April 23rd, 1987, Mr. Outhit stated that he would be unable to arrange a presentation to the Committee separate from the planned public informational meeting. Subsequent discussions between the Chairman of the Public Accounts Committee and the Minister of Mines and Energy led to an arrangement whereby the two Standing Committees would meet at 9:00 a.m., June 12, 1987. At that time Mr. Outhit would give his presentation before the Committee and interested members of the general public. The Committees would then be given up to one hour to question him. This arrangement was conveyed to Mr. Outhit on May 14, 1987 in the form of a letter. On May 22nd, 1987, a letter from Mr. John French, Director, Regulatory and Governmental Affairs, Nova Scotia Resources Limited, delayed this meeting once again and stated that the Minister would contact Dr. Gillis to arrange a mutually convenient future date.

Nova Scotia Resources Limited
Meeting No. 2: October 28, 1987

Witness: Mr. Peter Outhit
President and Chief Executive Officer

In his opening remarks, Mr. Outhit summarized the activities of Nova Scotia Resources Limited since last Spring. He circulated a brief financial statement to the Committee Members.

Discussion again focused on the issue of a public presentation by the President of Nova Scotia Resources. The Chairman of the Standing Committee on Public Accounts was of the opinion that the presentation would be made by Mr. Outhit at this meeting. However, Mr. Outhit did not share this view.

Mr. Outhit agreed to give his presentation on Wednesday, December 2, 1987 before a meeting of the two committees. His presentation was scheduled to take approximately 45 minutes. The Committees would be allocated approximately one hour for questions.

It was understood that the general public would be invited to take part in discussions immediately following the meeting.

In the period between the October 28th meeting and the December 2nd meeting, several pieces of correspondence passed between the Minister of Mines and Energy and the Chairman of the Standing Committee on Public Accounts which resulted in the proposed public presentation being cancelled as the Minister felt it was unnecessary "in view of the information we have already made public through our expanded Annual Report and Committee appearances...".

Nova Scotia Resources Limited
Meeting No. 3: December 2, 1987

Witness: Mr. Peter Outhit
President and Chief Executive Officer

Mr. John French
Director - Governmental and Regulatory Affairs

Mr. Robert MacDiarmid
Treasurer

This meeting was held in Committees Room No. 1 in the newly renovated House of Assembly Committees Office. Members of the Press were in attendance, as was the Minister of Mines and Energy.

Using graphics, Mr. Outhit made his presentation, which outlined the historical aspects of the industry and focused on the current status and long-range goals of Nova Scotia Resources Limited. During his presentation, he tabled two items, one dealing with the membership of the Board of Directors and the other entitled "Cost of Borrowings". Overall, the presentation was well received, however, both Mr. MacLean and Mr. Brown indicated their concern that questions on financial statistics which had been raised many times at previous meetings, still had not been fully addressed. When requested to provide the Committees with copies of his graphics, Mr. Outhit stated that he would have to check with his advisors first. (One week following the meeting, Mr. Outhit sent copies of these graphics to the Chairman of the Public Accounts Committee, with the request that these be provided to members by request only.)

Mrs. McDonough expressed concern regarding the composition of the Board of Directors, whereby two members have close associations with the Office of the Premier.

A brief discussion was held on the topic of Free Trade. However, Nova Scotia Resources Limited have reserved judgement until further details are provided on the pact.

Nova Scotia Resources Limited
...continued

Points Raised

Acquisitions

NSRL has, over the past five years, acquired:

a) 6.3% of all Scotian Shelf Gas reserves (an important area for exploration to Texaco Canada, among others);

b) 7% of the major gas discoveries; and,

c) more than 20% of the discovered substantial oil reserves in the Cohasset and Panuke structures.

The net cost of these acquisitions was equivalent to 4.6% of industry expenditures. Exclusive of PIP and other forms of government assistance, it was "substantially below the cost to the industry for the same assets."

Cohasset Project

Cohasset, which stands in 120 feet of water, was discovered in March of 1986. Nova Scotia Resources Limited maintains a 20-25% interest in the structure and in the field, which is operated by PetroCanada. It is anticipated that an onstream date of late 1989 or early 1990 is highly probable.

As a result of a joint analysis by NSRL and PetroCanada (concluded in late 1986) it was found:

a) a proper completion strategy would result in few, if any production problems;

b) the project contains in excess of 60 million barrels of marketable sweet light crude oil; and

c) production costs should be less than $200 Million and quite possibly could be less than $100 Million.

Further, NSRL, in cooperation with PetroCanada, is to set out a detailed production schedule which will include the development of a technical design and capital cost analysis.

Nova Scotia Resources Limited
...continued

Points Raised

Como Well

Prior to the decision to drill, the following breakdown of drilling rights was in place:

PetroCanada....	45.00%
Shell Canada...	43.75%
Canterra.....	6.75%
NSRL.....	2.70%
Trillium.....	2.00%

At that time, NSRL put up 52% of the cost despite owning only 2.7%. PetroCanada increased their investment by only 1% while Shell Canada and Canterra put up nothing. Several Committee members expressed concern over this management decision.

Repurchase of East Coast Energy

Although Western Canadian markets estimated the value of East Coast Energy at $3 Million to $3.5 Million, NSRL made their own evaluation and determined that the $7 Million purchase price was fair.

Novaco Limited

Novaco has ceased operations due partly to the following:

a) an insufficient market price to warrant activity, and

b) the limited contribution from the mines in operation was dependent upon one purchaser, the Nova Scotia Power Corporation.

Panuke

The Panuke discovery is operated by Shell. Drilling commenced as a result (in part) of pressure from NSRL and PetroCanada. NSRL holds a 12.5% interest in Panuke.

Nova Scotia Resources Limited
...continued

Points Raised

An anticipated production of 6000 barrels per day (from one zone) was announced in September 1986 and efforts are being made to ensure that a Panuke stepout well is drilled this year.

SCOMINEX

A total commitment of $3 Million is to be spent on the SCOMINEX gold exploration program over three years. The largest and most advanced area, Cochrane Hill, Guysborough County, "has been expended by monies raised by another company, Northumberland...which gave an option to SCOMINEX to earn 60% in the Cochrane Hill area."

NSRL costs must be kept down since INCO and the partners were funded through an equity issuance by Northumberland.

Scotia Synfuels Consortium

Its mandate was "to conduct a preliminary feasibility study into certain Cape Breton coals and their liquifiable properties and as this has been completed, the consortium no longer exists." There continues to be active interest and ongoing research in this area but the likelihood of NSRL becoming involved would depend on cost and technology.

Sable Gas Systems/Trans-Canada Pipelines

A 1984 agreement states that NSRL has the right, by way of option, to acquire up to 50% ownership of Sable Gas Systems Limited and ownership in an equity company that would construct the Sable Gas Pipeline. Currently, NSRL holds 50% of the nominal shares.

Committee members expressed concern that to date, they have been unable to obtain a copy of the signed agreement between Nova Scotia Resources Limited and Trans Canada Pipelines.

Nova Scotia Resources Limited
...continued

Points Raised

PetroCanada

Some Committee members expressed concern that should PetroCanada become privatized, the effect on Nova Scotia's offshore could be devastating.

NSRL Annual Report 1986-7

NSRL anticipates that they will be able to make their Annual Report available to Committee Members by the end of July.

Canada-Nova Scotia Offshore Petroleum Resource Accord

The Accord states that NSRL would receive $25 Million in assistance, by August, pending the introduction of pertinent legislation.

CEDIP

NSRL is currently involved in negotiations with the Federal Government with regard to its eligibility in the CEDIP Program.

European Common Paper Market

NSRL have been successful in obtaining financing at 6.25% by way of short term (60 and 120 days) promissory notes of the company (guaranteed by the province), which are continuously rolling over.

This method of financing, according to Mr. Outhit will potentially save NSRL $3/4 Million to $1 Million per year in interest and to April 1987, has resulted in capital gains of more than $6 Million.

The firms of Citicorp, CIBC and Merrill Lynch bid for our commercial paper and then sell it in the markets at very favorable prices.

Nova Scotia Resources Limited
...continued

Points Raised

Potential Markets

An analysis of Cohasset production shows that it contains very high quality components so that it could replace naptha (which currently must be imported) in most refineries.

The use of heavy crude in refineries is slowly decreasing and light crude is being seen as the most important oil product for the future.

Companies in the northeast United States (particularly utility companies) are looking to Canadian suppliers to replenish their stocks in cheap gas.

Write-Offs

NSRL has had a write-off policy over the past several years and in that time it has fallen "well within the guidelines of the Canadian Institute of Chartered Accountants (CICA)."

As a result of new CICA rules, adopted this year, which recommend the institution of one single cost centre as opposed to several small cost centres, the NSRL Board will review the write-off policy and make a determination on its continued use.

Department of Transportation
April 24, 1987

Witnesses: Mr. Lou Centa
Chief Engineer AND
A/Deputy Minister

Mr. David Colville
Director of Communications Policy

Mr. Donald MacDougall
Director of Transportation Policy

In opening remarks, the Witnesses briefly reviewed the department's responsibilities pertaining to:

-the construction and maintenance of the province's highway system, which consists of 25,600 miles of highway plus 9 ferries;

-the Registry of Motor Vehicles;

-the research and development of transportation policies in conjunction with Federal and Provincial Government agencies;

-the development of telecommunications systems and services including: telephone, mobile radio and computer communications, television and radio broadcasting (including cable t.v. systems) and communications satellites; and

-as a major employer, the department employs approximately 1,000 full-time civil servants as well as 1,000 full-time and 4,000 part-time persons in winter and summer maintenance programs.

Points Raised

Bridges

The Department is currently conducting a cost-effectiveness study into the replacement of ferries with bridges. It is anticipated that this study will take several months before completion.

Department of Transportation
...continued

The construction of a bridge at Englishtown is feasible but depends largely on government funding priorities.

The Committee requested the Witnesses (with the permission of the Minister) to provide the Committee with a detailed breakdown of how the $10,400,000 request for bridges is to be spent.

Budget

The department realizes that it was a poor decision to pay accounts prior to their invoice dates and assured the Committee that corrective action would be taken.

The "slush fund" for special maintenance can be used "for whatever purpose is determined by our field people." The Department is hopeful that at least part of this money will be used this year for ditching and gravel work.

For many years the Department has handled its own finances but a conversion process is presently underway which will see the Department of Finance taking over in about one year. Further, the Department will look seriously into the Auditor General's recommendation that they improve their internal audit program.

Communications:
-CBC NEWS Broadcasts in Northern N.S.

In northern Nova Scotia, particularly in the Cumberland County area, CBC news broadcasts are limited. In response to this concern, the Department has met with the CBC to discuss the installation of a rebroadcast transmitter in the area to carry the Halifax signal. However, it seems unlikely in the foreseeable future as the CBC is operating on a limited budget and is putting what funds it has into programming.

Department of Transportation
...continued

Communications:
-National Telecommunications Policy

The Department has been working for some time with the Federal Government to develop a consensus on a national telecommunications policy. This has resulted in a tentative agreement covering the following areas of concern:

1) a uniform level of competition in the areas of mobile radio and private line communications;

2) a uniform level of regulation across the country (of particular interest to nationally operated companies); and

3) the jurisdiction of the province over activities of companies within the bounds of Nova Scotia (i.e. Maritime Tel & Tel) while the Federal Government would have authority and responsibility for interprovincial telecommunications.

However, there are other concerns to be worked out before the policy can be finalized and the entire agreement will depend largely upon the results of a court case involving CN (a Federal Crown Corporation) and the Alberta Government Telephone Company. Should the outcome be in favour of the Federal Government, as is predicted by most observers, it is likely to set a precedent that will eventually see the Federal Government and the CRTC (rather than the Public Utilities Board and the Provincial Government) with jurisdiction over Maritime Tel and Tel.

Motor Vehicle Licensing

Motor vehicle license fees have increased substantially this year at rates of 13% for passenger and 5% for commercial vehicles. As well, the weight limits have gone to a flat rate.

Department of Transportation
...continued

Railroad Maintenance

The Department of Transportation have not discussed with the federal government the prospect of having CN upgrade or maintain its branch lines. Further, the Department is of the view that Bill C-18 will likely make it easier for a railroad to abandon rail lines in Canada, which would have a devastating effect on ports in the Atlantic Provinces.

Road Maintenance:

-Asphalt Plants

One asphalt plant was shut down last year. There are no immediate plants to close down the remaining plant.

-Burnside Expressway Extension

The situation is constantly being reviewed by the Department but no decision has been made on this project to date.

-Funding Arrangements with Municipalities

Municipalities are of the view that the Department of Transportation is not contributing its fair share of the cost of road maintenance. The Department agrees that there is a need to look into an increase in their share of the funding, however, they noted that in other areas, co-operative efforts between themselves and the Municipalities have been successful.

Regarding Class A streets, a change has occurred in funding policy. Previously, when a developer put in underground drainage in a subdivision, the Department would share the cost of paving. This is no longer the case, although the Department will honor past commitments. The Department's involvement in Class B and C roads, as well as sidewalks, remains shareable on the foundation scale.

Department of Transportation
...continued

-Highway Strengthening Subsidiary Agreement

Although it was not signed in November 1986, as originally anticipated, the Department feels that the Agreement is still a major concern.

-Repaving Program

The Department is confident, given the current budget restraints, that it is keeping the infrastructure well maintained. A highway generally lasts 15 years before repaving is required and this determination is made using an RCI (Riding Comfort Index). The current cost of repaving is approximately $1 Million per mile.

The poor conditions of rural roads in the Spring of 1987 can be attributed to adverse weather conditions the previous winter, when the province experienced excessive amounts of frost.

-Private Contracting

It has proven more economical to have work done within the Department rather than to contract out to the private sector. As well, it gives the Department better control over the operation.

-Sackville Road/Beaverbank Extension

The Department anticipates that improvements to this intersection, including sidewalks, will commence early in the summer. Firm commitments in this regard were made by both the past and present Ministers of Transportation.

-Snow Removal and Ice Control

Given the unpredictable nature of our winters, the Department finds it difficult to estimate the funds required for this operation. For example, in 1986-7 the expen-

Department of Transportation
...continued

diture for snow removal and ice control was $37.5 Million ...an increase of $2 Million over the original estimate.

-Weight Restrictions

There appears to be a need for more public information on the Department's policies and guidelines. Construction companies, in particular, do not appear to have adequate knowledge despite notices which are placed in newspapers and at scale houses.

Seat Belt Regulations

Some Committee members expressed concern over the number of complaints concerning injuries caused by rear lap belts. Further, they suggested that school bus safety equipment be upgraded to include seat belts and consideration be given to placing passenger seats so that they face the rear of the bus.

The witnesses pointed out that regulations governing the installation of safety equipment in motor vehicles comes under the jurisdiction of the federal government.

Sydney Steel Corporation
April 29, 1987

Witnesses: Mr. Ernest Boutilier
President

Mr. Michael Cochrane
Chairman of the Board

Mr. Robert Skinner
Secretary/Treasurer

This meeting was held in conjunction with a meeting of the Standing Committee on Public Accounts.

In lieu of an opening statement, the Witnesses deferred to questions from the Committee, making note, however, that some topics might be of a confidential nature.

Points Raised

Administration

The current Directors of Sydney Steel are paid a stipend of $2,000.00 per annum plus $100.00 for each meeting they attend, as well as travel expenses. They are:

Mr. Michael Cochrane, Chairman of the Board
Mr. John Douglas
Mr. William Manson
Mr. Hugh McMaster
Mr. T. J. McKeough
Mr. Jerry Nickerson
Mr. Gerald Ritcey
Hon. Roland Thornhill

CN Agreement

The agreement with CN stipulates that approximately 80% of CN's requirements, that can be made by Sydney Steel, are to be placed with Sydney Steel. However, it is difficult to determine tonnage from year to year, as CN's needs vary. As a result, Sydney Steel must ensure each

Sydney Steel Corporation
...continued

year that international markets are substantial enough to support any slack in CN's orders. With that in mind, Sydney Steel has had independent studies done which have proven that there will be enough orders to keep the plant operating for some time at reasonable levels.

As a result of constantly changing technology and specifications, the installation of head hardening equipment has been delayed until they can assure their customers of the best possible product.

Hours of Operation

A summer shutdown for 1987 is not anticipated. The plant will operate at the ten-shift level until the end of October and then resume at this rate following a two-week vacation and maintenance period.

Financial

-Debt

As of March 31, 1987, the total debt of Sydney Steel Corporation is $461 Million and consists of:

a) debentures - $ 59 Million
b) trust company loans - $205 Million
c) bank loans - $197 Million

All loans are on varying terms of up to five years, with the exception of the debentures, which go as far as 1996.

In his report, the Auditor-General expressed concern about the Corporation's borrowings, particularly with reference to the short-term arrangements. The Witnesses noted that due to falling interest rates, it has been less expensive for the company to be in short term and any decision to change the strategy to long term will be done under the advice of the provincial Department of Finance with whom they are in regular contact.

Sydney Steel Corporation
...continued

Sydney Steel has moved from bank loans (at prime rates) to trust companies and other institutions where they are borrowing at less than the prime rate. Some of these loans are for up to five years but can be repaid by Sydney Steel or the province with a 30-day notice.

-Statistics

Financial statistics for the 1986 fiscal year are:

a) Sales.....$91 Million

b) Loss Before Interest and Depreciation.....$14 Million

c) Loss After Interest and Depreciation.....$66 Million

The Witnesses agreed to provide the Committee with copies of their audited statement which should be ready by June 15th.

Modernization - Phase II and III

-Anticipated Results

1. Competitiveness will be enhanced greatly, particularly in overseas markets.

2. Tonnage will be increased substantially (provided overseas markets remain constant).

3. Although difficult to assess, employment rates should, at the very least, remain the same...1,413 production workers.

-Electric Furnace

An engineering study is currently being carried out on the electric furnace and it is anticipated that it will be completed and assessed within a few months. Actual construction will begin 4-5 months after all parties are in agreement to proceed with the actual implementation of Phase II.

Sydney Steel Corporation
...continued

-Implementation of Agreement

Although senior federal officials, including the Prime Minister, have indicated their approval of the next phase, it appears there are some elements (particularly the competition) who are trying to discourage the process. A Management Committee consisting of a provincial representative (Mr. Tom Merriam, Department of Development), a representative from Sydney Steel (Mr. Ernest Boutilier) and a federal government representative is involved in the negotiation of the modernization agreement.

-Projected Costs

Sydney Steel feels that the $157 Million originally projected for Phase II is still a viable figure and a preliminary estimate of its allocation is as follows:

a) Steelmaking.....$84 Million
b) Castor and Reheat Furnace.....$22 Million
c) Rolling Mills.....$23 Million
d) Services (utilities, transportation, etc.).....$28.5 Million

-Universal Mill

The Witnesses noted that as the provincial government has committed itself to the inclusion of a universal mill as part of Phase II, the purchase of a mill in Chicago is currently under consideration.

Tonnage/Order Book

The bulk of orders are arranged strictly between Sydney Steel and the customer although there are a few government backed orders. In 1986, tonnage was approximately 170,000 tons (165,000 of which were rails and tie plates). For 1987, the projection ranges from 169,000 to 208,000 tons.

United Steel Workers of America - Local 1064
April 29, 1987

Witnesses: Mr. John Callaghan
President

Mr. Clifford Boutilier

Mr. Benny O'Neill

This meeting was held in cooperation with the Standing Committee on Public Accounts immediately following discussions with the Sydney Steel Corporation.

Although invited to make an opening statement, the Witnesses deferred to the questions of the Committee.

Points Raised

Business Plan

The Business Plan, which includes the electric furnace, the retaining of the blast furnace and casters, etc., was signed in February 1986 by the Premier and the Hon. Sinclair Stevens.

Although intially the Union was against the electric furnace, research has shown them that the electric arc furnace is the best and cheapest way to retain jobs, as indicated in the Plan. Further, the Union feels that modernization will increase the plant's effectiveness on the world market and reduce their price by $60 - $100 per ton. However, of concern to the Union are persistent rumors surrounding the Plan and they would like to have them clarified.

Consultative Process - Union/Management

Of prime concern to the Union is their inability to get from management definite answers to their queries. They concede that there has been some improvement in this regard but the information forthcoming is still inadequate. As a result, they have had to turn directly to the Premier, who has always been very cooperative, to obtain the necessary information.

United Steel Workers of America - Local 1064
...continued

In an effort to gather information necessary to the union/management discussions, the Union is attempting to set up committees in the various sections of the plant. Further, the Union would prefer to have representation on the management team rather than on the Board.

An understanding has been reached between the Union and management with regard to contracting out in that all workers in the plant would be employed to the fullest extent before any work would be offered elsewhere.

For more than a year, the Union has presented their view that a works manager, knowledgeable in every aspect of a steel mill is essential.

Employment

At present, approximately 500 persons are on layoff and call-back seniority is set to February 1975. The Union feels very strongly that the modernization process is essential to maintain jobs in Cape Breton at current levels.

After studying a copy of the manpower requirements for the tar pond development, as prepared by the Department of the Environment, the Union has concluded that there is a possibility of only seven (7) additional jobs for steelworkers.

Free Trade

A free trade agreement, in the Union's view, would be detrimental to Sydney Steel given its location and distance from markets.

Nova Scotia Power Corporation
May 1, 1987

Witnesses: Mr. Louis Comeau
President and Chief Executive Officer

Mr. R. C. Fraser
Vice-President and
Chief Financial Officer

Mr. L. J. Sweett
Vice-President, Consumer Affairs

Mr. G. D. Lethbridge
Vice-President, Engineering and
Production

Mr. T. F. MacDonald
Vice-President, Planning

This meeting was held jointly with the Standing Committee on Public Accounts.

The Witnesses distributed a report which made reference to the Corporation's finances, productivity and its commitment to the environment.

Points Raised

Coal Field: Pictou

Should Pictou County coal be developed, it is projected by the Corporation that over a period of 30 years it will yield in the area of 3/4 million tons per year and would be sufficient to meet the needs of the Trenton plant.

Coal Field: Devco

The Corporation is of the view that the supply of coal from Devco will not be affected by the Pictou County development since another plant is being installed at the Strait of Canso. Further, NSPC anticipates that with the upgraded fluidized bed technology, their supply from Devco will continue to increase.

Nova Scotia Power Corporation
...continued

Environment:

-Emission Reduction

Recently, the Corporation made an expenditure of approximately $6 Million in an effort to reduce emissions and improve operating efficiency at all thermal generating stations. This included $3 Million at the Trenton plant alone where the following have been installed:

1) a third precipitation field (to reduce particulate emissions); and

2) monitors (to make necessary adjustments relative to stack emissions).

The Corporation has been conducting research into the viability of fluidized bed combustion thermal plants, a technology which dramatically reduces sulphur emissions. Although originally produced in Germany, it is now manufactured in Canada by Combustion Engineering and Babcox and Wilcox. A low-level operation has been in use in Canso for a few years. Further, NSPC has approached the federal government for the funding necessary to upgrade and expand on this technology in anticipation that it will be operational by 1993-94. An appropriate site is yet to be determined.

-Hazardous Waste

The Nova Scotia Power Corporation has committed as much as $2.5 Million over the next five to seven years to the PCB Management Program.

- Wildlife

The Corporation has conducted successfully, a nest relocation program for birds that frequently nest on transmission lines. As well, fishways and fishladders have been installed at numerous plant locations and NSPC is supporting cooperative fish culture and aquaculture projects.

Nova Scotia Power Corporation
...continued

-Hydro Plants

Although the overall cost of producing hydro is relatively inexpensive, NSPC have decided, for environmental reasons, not to proceed with any further development in this area.

Export of Electrical Energy

The Corporation has aggressively pursued potential U.S. markets to sell coal-fired energy. Despite the deals made between Hydro Quebec and the State of Maine, research has shown them that Nova Scotia is still in a competitive position. The total cost of a submarine cable to Machias, Maine (including generation) would be approximately $900 Million.

Some Committee members expressed concern that given the fact that Nova Scotia does not produce cheap energy, combined with the cost involved in the transport of energy to the United States (via the submarine cable), this province does not appear to be in a competitive position with other producers such as Hydro Quebec.

Finances

-Expenses

Of the Corporation's total expenses, 78% are fixed in nature:

a) fuel & purchased power.....37%
b) interest costs.....30%
c) depreciation.....10%
d) grants in lieu of taxes..... 1%

Operating costs represent 22% of total expenses as follows:

a) labour & materials.....14%
b) supplies & services..... 8%

Nova Scotia Power Corporation
...continued

-Public Bond Issue

The first public bond issue, which was marketed directly to residents of this province, has proven successful enough during 1986-87 to finance the Corporation's large capital programs, i.e. Point Tupper No. 2 Coal Conversion.

-Rate Stabilization Fund

The original objective of the fund was to counter rate increases. Its balance as of April 1, 1986 was approximately $24 Million and was used in fiscal 1986 to offset the $12.3 Million operating loss. The same use will be made of the fund in 1987. The current balance is approximately $12 Million.

The Witnesses noted that the Corporation intends to go before the Public Utilities Board next year but the required increase has not yet been determined. They maintain, however, that over the ten year period, 1985-1995, their objective is to keep the rate of electricity at 80% of the CPI over the same period. That is to say, that some years may see the rate slightly higher than CPI, but on average it will work out to 80% over the ten year period.

-Productivity

A cumulative productivity gain of 14.9% over the past five years has resulted in the cost per kilowatt hour being reduced from 8.13 cents in 1981-82 to 6.95 cents in 1986-87.

Land Acquisitions

A parcel of land in the Antigonish area was purchased by the Corporation for the sum of $500,000 from a Mr. Webb who bought the property in 1977 at a price of $200,000. Some Committee members felt the increase in value was excessive and requested that copies of the two appraisals done on Mr. Webb's property be forwarded to the Committee. The Corporation will clear this request through their legal advisors.

Nova Scotia Power Corporation
...continued

Point Tupper Conversion Project -Phase I

Some Committee members requested that the following information be made available to them as soon as possible:

1. the price of the Point Tupper boiler (Combustion Engineering).

2. the names of bidders and bids made on the remainder of the Point Tupper project.

Staffing

The Power Corporation is experiencing shortages in qualified staff in the following areas:

...Linesmen - due in large part to an early retirement package which was introduced in 1986

...Steam Plant Operators - due to the addition of new plants

and is working in conjunction with the Department of Vocational and Technical Training on programs to accommodate these needs.

The Witnesses, on behalf of the Corporation, agreed to provide the following information to the Committee as soon as possible:

1. the anticipated shortages over the next three years in ALL areas of staffing;

2. the number of courses at Vocational and Technical Training that the Corporation is currently involved in, and the number of prospective students these courses can accommodate; and

3. the number of persons hired from outside this province over the past two years and their job titles.

Nova Scotia Power Corporation
...continued

Vehicle Inventory

It was noted by some Committee members that past requests for details on the Corporation's rented vehicles and their leasing agents have not been addressed. These members requested that the Corporation investigate this concern to ensure that the Committee is provided with this information.

United Steel Workers of America - Locals 1231 and 4253
May 8, 1987

Witnesses: Mr. John Eaton
President - Local 1231

Ms. Frances Soboda
President - Local 4253

Mr. Bob Young
Staff Representative

In their opening remarks, the Witnesses detailed for the Committee the historical background of the current situation at the Hawker-Siddeley operation in Trenton.

Points Raised

Employment

Five years ago, Hawker-Siddeley employed a total year round workforce of 2,500. However, the number of employees has often fluctuated over the history of the plant from a low of several hundred to a high of 2,500. At present, through attrition, deaths or pensions, etc. company records list a total workforce of 1,640. However, of that number, approximately 100 are actually employed.

The Union, which represents 6,000 members in the rail car industry across Canada, noted that little more than 600 of these are actually employed and it feels strongly that there is enough of a requirement for rail cars and industry components in Canada to put all of their membership back to work on a full-time basis for many years to come. This, they feel, can be done without any financial aid from any level of government.

The Witnesses noted that by June 1987, approximately 600 of the Hawker-Siddeley employees will be dependent upon welfare. That number will drastically increase in September 1987 when 74% of the unionized employees will see their UIC benefits run out because they did not work long enough in 1986 to requalify. A large number of management and supervisory staff are in the same position. The social upheaval this situation has created in the community of Trenton is difficult to measure.

United Steel Workers of America - Locals 1231 and 4253
...continued

Exports

The Witnesses reported that up until 1986, Hawker-Siddeley generally were able to get foreign orders in addition to a share of the CN requirements. At that time, National Steel Car in Hamilton were the principal producer of CN orders and therefore were not concerned with exports. However, since the domestic market has virtually dried up, it appears that Hamilton has convinced Ottawa to give them a share of these foreign orders, resulting in disaster for Trenton.

A large order from Zambia (part of which has already gone to Hamilton), consisting of 485 cars for a total cost of $32 Million has been placed on hold. The Union feels the delay is in Ottawa and is due, in large part, to the state of uncertainty about Trenton's future, despite assurances by the Company that the order can be completed.

National Rail Car Procurement Policy

The Witnesses noted that those knowledgeable of the industry feel that the Trenton Car Works and other car manufacturers across Canada cannot possibly survive without the benefit of a procurement policy; and further, that a buyer would not find the Trenton Car Works a worthwhile investment without such a policy.

Union Proposals

In 1981, the local and national offices of the Union presented a brief to the federal government which addressed the long term effect of the rail car manufacturing industry in Canada. Recommendations in the brief were endorsed by most people with knowledge of the industry with the exception of M. Jean Luc Pepin, then the Minister of Transport and his Liberal colleagues. However, the government did not respond in any form.

Further, at a hearing which took place in the Spring of this year, the Union again presented their brief to the current Minister of Transport, the Hon. John Crosbie and

United Steel Workers of America - Locals 1231 and 4253
...continued

to date, have not received a response.

The Witnesses agreed to forward a copy of this brief to the Committee.

United States Rail Car Surplus

The Witnesses reported that in 1981, the United States had a surplus of 240,000 - 250,000 rail cars and looked to Canada for a solution. At that time, the Union advised the Minister of Transport against allowing these cars, which incidentally, were of an inferior quality, to come to Canada. However, their concerns were ignored.

In comparison to the 130,000 brought into Canada from the United States by June of 1986, the following cars were manufactured in Canada during the same time:

1982	-	3,004
1983	-	1,723
1984	-	3,488
1985	-	3,160
1986	-	700
For a total of:		12,075

The Witnesses also noted that since 1981, CN has purchased rail cars by taking the lowest bid. The American manufacturers, concerned primarily with recouping some of their losses, are selling their cars at discounted prices, some as low as half-price, and as a result, they are producing the winning bids. As well, there appears to be a different set of standards for the manufacture of rail cars in the United States as compared to Canada. The U.S. manufacturers use a cheaper grade of material, thus their cars have a shorter life span, however, CN and CP inspectors regularly pass them. On the other hand, CN and CP have refused to accept Canadian cars if the manufacturers adopt the same standards used by the Americans.

United Steel Workers of America - Locals 1231 and 4253
...continued

To add to their frustration, the Union has noted that upon arrival in Canada, many American-made cars have to be refitted to meet Canadian specifications and instead of giving at least this amount of work to Canadian workers, the refitting is being done by workers that are brought in from the United States.

In referring to the recent spate of rail accidents in this country, concern was expressed by some Committee members that by using sub-standard US cars, the railroads could be creating a safety hazard.

The Witnesses noted further that in a discussion with the Hon. John Crosbie, the Union tried to impress upon him the loss to Canada in UIC Benefits, Social Assistance Payments, Income Tax and Sales Tax (due to a loss of purchasing power). Mr. Crosbie informed them that once the US surplus had been used up, the federal government would consider purchasing from Canadian manufacturers. In this regard, the Union has learned that American manufacturers are in the process of substantially increasing their production so that they will be in a position to supply more cars to Canada when their surplus runs out. Further, although Trenton is the only producer of rail car axles in Canada, production has dropped from approximately 60,000 per year to 3-4,000 per year, with the bulk now coming from the United States.

The Union feels, given the current state of affairs, a Free Trade Agreement with the United States would mean the end to the rail car industry in Canada.

The Union agreed to provide the Committee with a copy of the United States rail car production statistics.

COMMITTEE ONLY
May 12, 1987

Topic of Discussion: The Appearance Before the Committee of Representatives from-

Hawker-Siddeley Canada Limited
Trenton, Nova Scotia

Subsequent to media reports that Mr. L. T. Corey, Vice-President of Hawker-Siddeley, had refused to meet with the Committee, a letter dated April 24, 1987 was received from him.

It was the Committee's interpretation of this letter that, far from refusing to appear, Mr. Corey was suggesting that prior to a meeting, the Committee apprise itself of past correspondence between Hawker-Siddeley and members of the government which detailed causes of and possible solutions to the situation at Trenton.

It was decided that the Chairman would contact Mr. Corey by telephone and personally invite him to attend a meeting of the Committee during the next week.

Note:

Mr. Corey agreed to an In-Camera Session, which was scheduled to be held at 6:00 p.m., Tuesday, May 19, 1987 in the Red Chamber.

Hawker-Siddeley Canada Limited
May 19, 1987

"IN CAMERA"

Witness: Mr. L. Corey
Vice-President

Observers: Mr. John G. Fitzpatrick
Director of Manufacturing

Mr. Robert Durdan
Director of Human Resources

Mr. Ronald Wollam
Director of Engineering

Mr. Merlin Fownes
Director of FInance

Mr. Richard Frost
Director of Marketing

The Witness confirmed the seriousness of the situation at Hawker-Siddeley in Trenton, N. S. noting that Union and Management have an excellent relationship and are working together to try to find a solution.

He expressed the view that a co-operative effort, not only between Union and Management, but one which encompasses both the federal and provincial governments, is necessary. He further noted that if steps are not taken, Hawker-Siddeley is headed toward a complete shutdown by the end of 1987. Any decision to cease operation, of course, will be made by their Head Office in Toronto.

Finances

Mr. Corey reported that, despite being profitable from 1973 to 1983, the company has been losing money since

Hawker-Siddeley Canada Limited
...continued

1984. Profits at the end of 1986 were down by $11 Million and more losses are expected this year. The reasons for such losses include the high costs associated with the power plant, hydro rates and taxes (although there was a decrease in 1986).

He also noted that the company has been actively exploring alternate markets, both export and domestic. Since the company is the last of the tank car manufacturers in Canada, he is confident there is a market for their product and stated that if Hawker-Siddeley could obtain orders to manufacture 1500 cars per year, they would make a fair profit.

Solutions

Considerable discussion ensued on the viability of proposed solutions. Some of those were:

1. the co-operative purchase of Hawker-Siddeley by its employees;

2. diversification;

3. a concerted lobbying effort by union, management and provincial governmment;

4. change of approach toward export markets to include South America, as well as the formation of a holding company;

5. bringing in expertise and entrepreneurship;

6. the Committee's support in presenting the company's case that CN cars should be manufactured locally.

Steps Already Taken

1. The United Steel Workers of America, Locals 1231 and 4253 presented a brief to the federal Minister of Transport (in both the previous and present federal governments) which clearly stated their views and their deep concerns about Hawker-Siddeley.

Hawker-Siddeley Canada Limited
...continued

2. The management of Hawker-Siddeley have kept the Department of External Affairs apprised of their situation, particularly as it pertains to export markets.

3. Mr. Corey, as Vice-President of Hawker-Siddeley (Trenton) met with Mr. Simon Reisman, giving him all the pertinent information regarding Hawker-Siddeley as it pertains to the Free Trade Negotiations.

4. Hawker-Siddeley is currently conducting negotiations in the export markets.

Conclusion

All those present agreed that this was a constructive meeting and concluded that a co-operative effort was called for.

Nova Scotia Resources Development Board
May 15, 1987

Witnesses: Mr. J. Zatzman
Chairman

Mr. H. Snow
Chairman

In opening remarks, the Witnesses referred briefly to the financial picture of the Board, then deferred to questions from the Committee.

Points Raised

Arrears

In comparison to last year, arrears for this year (as of March 31st) are as follows:

	1986	1987
Industrial:		
...Number of Loans	18	22
...Arrears	$695,000	$1.5 Million
Tourism:		
...Number of Loans	25	15
...Arrears	$455,000	$719,000

Capital Corporations Act

The Witnesses noted that the Act is still in the planning stages and its purpose is to bring about a better co-ordination of the economic development agencies of the provincial government.

Foreclosure:
Shieling Motel/Causeway Hotel

Last year, the Board received audited statements from the lawyer of Dr. B. MacLean and made a judgement, based on

Nova Scotia Resources Development Board
...continued

Dr. MacLean's liabilities, to delay the situation (for perhaps a year or two) until such a time as he would be in a position to make substantial payments.

Recently, the Board requested from Dr. MacLean's lawyer, another audited statement in order to determine his current financial position. Once received and reviewed, the Board will make its recommendation to the government on a demand payment or another deferral.

Suttles and Seawinds

Despite assurances of financial stability made to this Committee last year, Suttles and Seawinds ran into serious difficulties and was placed in the hands of a receiver, Coopers and Lybrand.

The Witnesses noted that the appointment of the receiver relieved the Board of all legal responsibility, however, as a major creditor, the Board felt it was in a position to provide guidance to the receiver. This advice was ignored and the receiver notified the Board that it took its direction from another source. The Board has since requested an itemized breakdown of a bill which was received from Coopers and Lybrand for "receivers fees" in the amount of $300,000.

An agreement to purchase the assets (accounts receivable and inventory) for the sum of $300,000 has been struck between the Board and a new company that has among its investors:

...two venture capital companies:
- Jilnik Equities of Truro, N. S., AND
- ABC Venture of Bridgewater

(These companies are arranging for a total investment of $400,000, of which ½ will be coming from the Venture Capital Corporation.)

...some Bridgewater residents

...Mr. Gerry Barton

Nova Scotia Resources Development Board
...continued

The deal was arranged by Mr. Bob Bruce, an accountant with Coopers Lybrand, who was a member of the Venture Capital Board when decisions were made. Mr. Bruce has since resigned from the Board.

The following monies had been invested by the province under the direction of Cabinet, in an attempt to save Suttles and Seawinds:

a. $350,000 - original loan

b. $200,000 - bank guarantee

c. $800,000 - receivership funding

and following the sale, the net loss to the province will be $1 Million.

The Witnesses agreed to provide the Committee with copies of all correspondence between the Board and the Receiver of Suttles and Seawinds as well as a complete list of proposals in the last two years that were turned down by the Board and later approved by Cabinet.